

WORKING CAPITAL FUND

FY 2000 Mid-Year Report: Summary

I. Relation of Earnings to Expenses

- Each business is expected to achieve a balance between annual 'earnings' (billings to customers pursuant to Board-approved pricing policies) and 'expenses' (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type transactions).
- Overall, the Fund broke even in the first half of FY 2000, with net earnings of \$0.1 million on the basis of over \$40 million in earnings. (Table I).

WORKING CAPITAL FUND			
FY 2000 Mid-Year Business Results (in Millions)			
TABLE I			
Business Line	Earnings thru Quarter 2	Business Expenses thru Quarter 2	Net Results
Supplies	\$1.3	\$1.6	(\$0.3)
Mail	\$0.8	\$0.8	\$0.0
Copying	\$1.2	\$0.9	\$0.3
Printing/Graphics	\$1.7	\$1.6	\$0.1
Building Occupancy	\$28.3	\$27.3	\$1.0
Electronic Services	\$0.5	\$0.3	\$0.1
Telephones	\$3.4	\$3.5	(\$0.1)
Desktop	\$0.7	\$0.8	(\$0.1)
Network	\$1.6	\$1.8	(\$0.2)
Contract Closeout	\$0.2	\$0.3	(\$0.0)
Payroll & Personnel	\$1.1	\$1.8	(\$0.7)
EIS	\$0.0	\$0.1	(\$0.0)
TOTAL	\$40.8	\$40.7	\$0.1

The following are the explanations for variances in excess of \$50,000 between earnings and expenses.

Supplies: The business expenses for the Supplies business line have exceeded earnings by an estimated \$0.3 million in the first half of FY 2000. There are essentially three components of this loss:

- As reported to the Board in the first quarter report, the business line made a delayed payment of \$126,200 for FY 1997 services in support of the AMPS system;
- The costs to convert from the AMPS system to the new Quicksell system have continued to grow, with cumulative FY 2000 costs for both systems reaching \$148,000 by mid-year.
- The inventory valuation decrease reported in the first quarter report was in error, because it included write-offs that were already booked in FY 1999. There may have been a further inventory-related loss in the first half of FY 2000, but the magnitude is unknown because of apparent changes in inventory systems.

There have been operating losses to this business line at a number of points since the business was started, apart from the various one-time problems discussed above and in previous reports.

Under the Board policies adopted in 1998 in response to Inspector General recommendations, if a business line has had expenses in excess of earnings for two consecutive quarters, the Fund Manager shall ask a working group and business line officials to prepare a report for the Board, including options for whether and how to continue the business. Based on first half performance in FY 2000, the Fund Manager is calling for such a report on the Supplies business.

Copying: This business line had net earnings of approximately \$271,000 in the first half of FY 2000, notwithstanding the reduction in the per-copy charge taken at the start of the year. Much of this gain is attributable to cost savings associated with implementation of the “door-to-door” delivery methods outlined as one of the Secretary’s management savings initiatives. The Fund Manager recommends that the Board not make a further decrease in per-copy prices at this time, both because the volume of copying has stabilized in FY 2000 and because the Board has not reviewed longer-term capital improvements of this business line. A more comprehensive business plan will be developed to consider the use of available balances and to assess further pricing policy options.

Printing and Graphics: There have been slight underruns in Printing overhead costs, partially offset by minor overruns in Graphics overhead costs, but there appears to be no need to make pricing policy changes at this time.

Building Occupancy and Electronic Services: The excess of earnings over costs appears to be due to seasonal factors. Under the Board- approved capital project plan for the Germantown Occupational Health (GOHO) facility, the Building Occupancy business line is likely to have run a deficit in the second half of FY 2000, but no pricing policy changes are needed at this time.

Information Management: All three business lines, Telephone, Network, and Desktop, had business expenses slightly in excess of earnings for the first half. In the case of Telephones, the Fund Manager will work with the CFO to ensure proper recording of depreciation expenses. In the case of Desktop, the loss appears related to a reduction in training earnings that is related to seasonal factors. Since pricing policy reviews of all three business lines are underway in conjunction with proposals approved by the Deputy Secretary and the Executive Committee on Information Management, no further adjustments are recommended at this time.

Payroll and Personnel: The business line had expenses in excess of earnings of over \$700,000 in the first quarter, due to system development costs financed from outside of customer billings. These losses did not recur in the second quarter, and no change in pricing policy is needed.

II. Relation of Customer Payments to Anticipated Customer Billings

- " Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.
- " By March, we had collected 92% of the estimated \$81 million in FY 2000 annual revenues. This is below the 95% first-half collection rates for FY 1998 and FY 1999, in part due to the creation of new organizations. At this point, we do not believe that collections will be a problem in FY 2000. (Table II)

WORKING CAPITAL FUND			
FY 2000 Mid-Year Business Results (in Millions)			
TABLE II			
Business Line	CY Advances and Carryover Payment Credits	Anticipated Full Year Payments	% Annual Payments Collected
Supplies	\$2.6	\$2.6	99%
Mail	\$1.6	\$1.6	102%
Copying	\$2.2	\$2.3	93%
Printing	\$2.9	\$2.7	108%
Graphics	\$0.7	\$0.7	100%
Printing/Graphics	\$3.5	\$3.3	106%
Building Occupancy	\$51.4	\$56.3	91%
Electronic Services	\$0.5	\$0.9	50%
Telephones	\$5.8	\$6.9	85%
Desktop	\$1.3	\$1.4	91%
Network	\$2.7	\$3.2	83%
Contract Closeout	\$0.7	\$0.6	115%
Payroll & Personnel	\$2.3	\$2.2	102%
EIS	\$0.1	\$0.1	156%
TOTAL	\$74.6	\$81.4	92%

III. Relation of Payments to Obligations by Business Line

- o There have been no violations of administrative control of funds procedures by WCF business lines.
- o As shown in Table III, funds available exceeded obligations by an estimated \$32 million by the end of the first half. The rate of obligation is on track with annualized estimates.

WORKING CAPITAL FUND					
FY 2000 Mid-Year Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	PY Unoblig. Advances	Current Year Customer Advances	Total Available for Obligation	Year to Date Obligations	Remaining to be Obligated
Supplies	\$1.0	\$2.4	\$3.4	\$1.9	\$1.5
Mail	\$0.8	\$1.4	\$2.2	\$0.5	\$1.6
Copying	\$1.3	\$2.0	\$3.3	\$1.8	\$1.5
Printing	\$0.2	\$2.5	\$2.7	\$1.2	\$1.6
Graphics	\$0.0	\$0.7	\$0.7	\$0.5	\$0.1
Printing/Graphics	\$0.2	\$3.1	\$3.4	\$1.7	\$1.7
Building Occupancy	\$2.4	\$49.3	\$51.7	\$30.1	\$21.6
Electronic Services	\$0.0	\$0.5	\$0.5	\$0.4	\$0.0
Telephones	\$0.4	\$5.1	\$5.5	\$4.3	\$1.2
Desktop	\$0.2	\$1.1	\$1.4	\$1.1	\$0.3
Network	\$0.0	\$2.4	\$2.5	\$2.3	\$0.2
Contract Closeout	\$0.0	\$0.5	\$0.5	\$0.2	\$0.3
Payroll & Personnel	\$0.1	\$2.2	\$2.3	\$0.8	\$1.5
EIS	\$0.0	\$0.1	\$0.1	\$0.0	\$0.0
TOTAL	\$6.5	\$70.2	\$76.6	\$45.2	\$31.5

IV. Changes in Budget Estimates by Business Line

- As shown in the table below, there has been relatively little change in the FY 2000 aggregate budget estimates for WCF businesses.

FY 2000 Budget Estimates for WCF Businesses		
Date	Process	FY 2000 Billing Estimate (\$Millions)
June 1998	FY2000 Corporate Review	\$83.1
December 1998	FY2000 Congressional Budget	\$81.6
May 1999	FY 2001 Corporate Review	\$81.4
December 1999	FY 2001 Congressional Budget	\$81.7
April 2000	Mid-Year Review (Table II) and March 2000 Bill	\$81.4

- There was more fluctuation in the estimates at the individual customer level than in the aggregate estimate, but these appear attributable to the reorganizations that have occurred since the initial estimates were developed.

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

- The Fund Manager does not anticipate the need for further pricing policy changes for FY 2000, though there is a need to review the operations of the Supplies business line, and that review has begun.

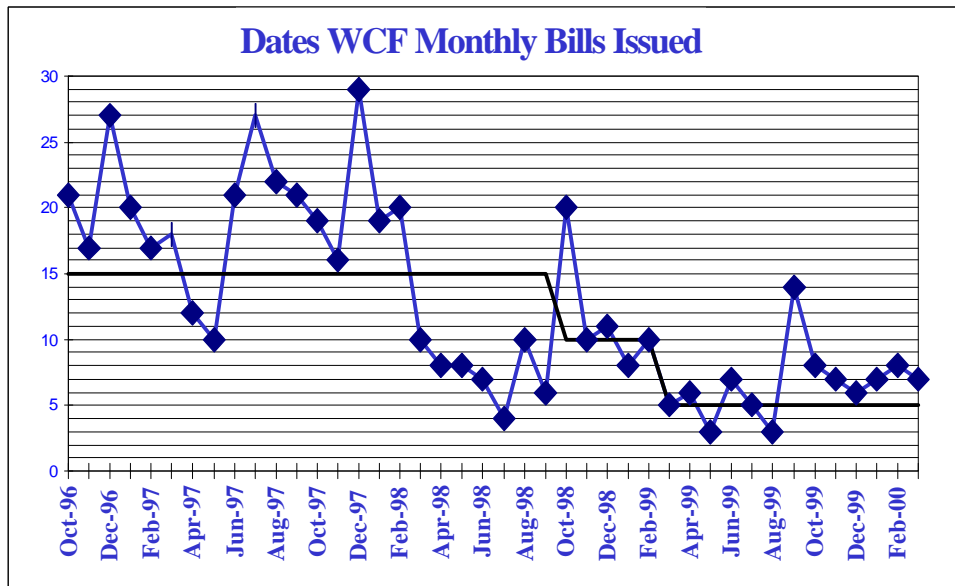
VI. Financial Management Systems Progress

Working Capital Fund Billing System

- Billings were recorded in DISCAS in a timely manner during the first two quarters of FY 2000, as illustrated in the graph on the next page.

Blue Book Information

- The FY 2000 "Guide to Services, Policies, and Procedures" (the Blue Book) has been published in hard copy, and the contents are also being made available on the Working Capital Fund Home Page, linked to the Management and Administration Home Page, at <http://www.hr.doe.gov/wcf/>.

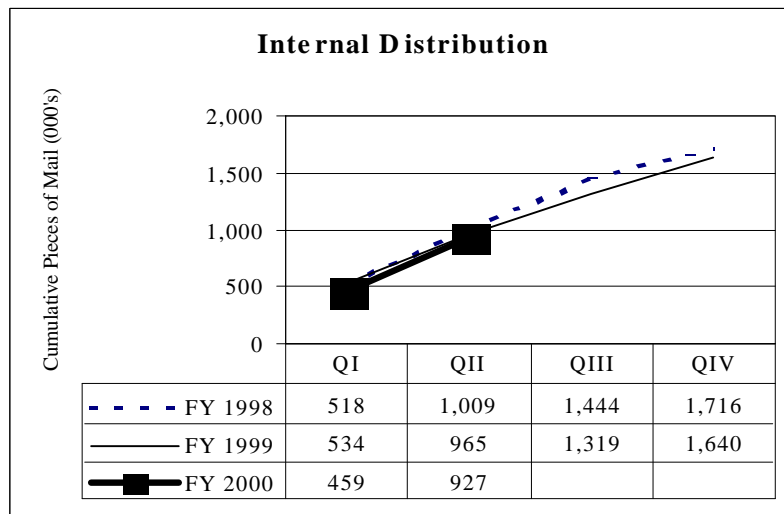
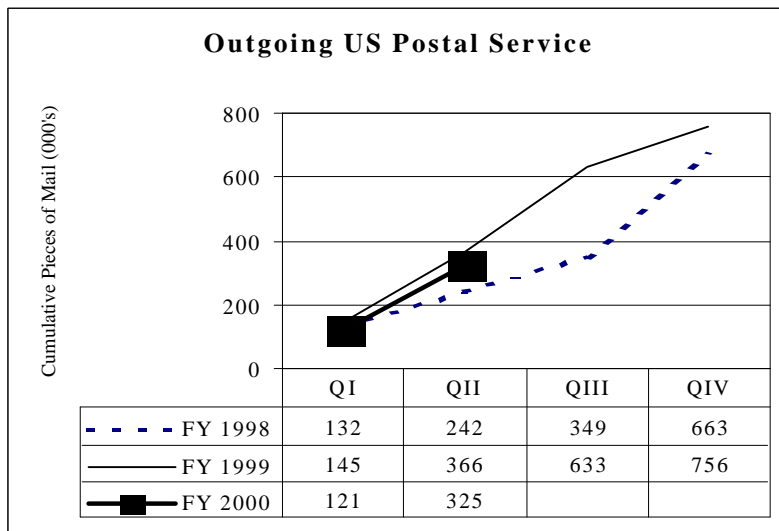


Inspector General Report Follow-On

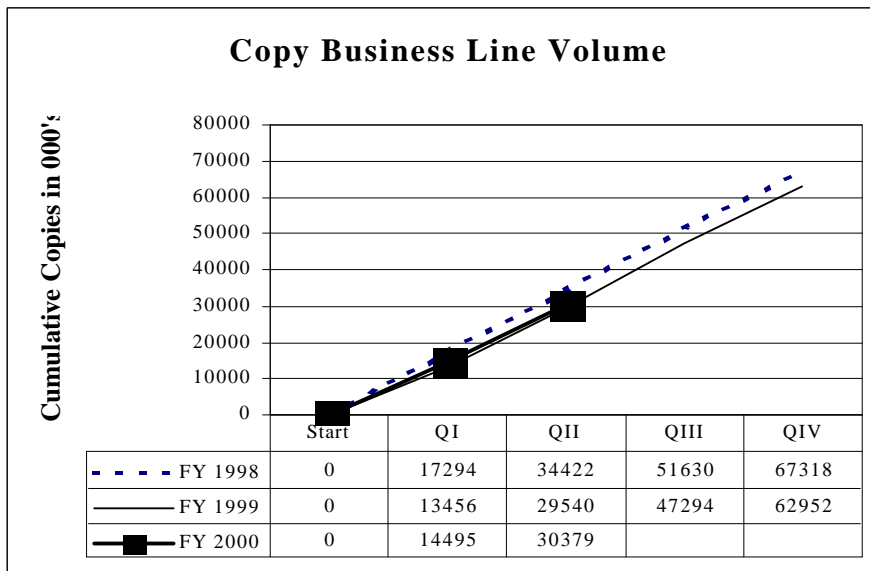
- The DOE Inspector General has performed three audits on the Fund (1997, 1998, and 1999), and follow-on actions have formed the basis for Working Capital Fund management improvement plans.
- As of April 12, 2000, Management and Administration has certified the closure of all recommendations in the 1998 report, and the 1997 report was certified for closure during 1999. The 1999 report contained no recommendations.
- While there are no outstanding IG recommendations for the Fund, we continue to prepare certain recurring analyses that were called for in management's responses to prior reports.
- On April 6, 2000, we completed the annual review of the WCF cost structure, to identify the ways in which WCF businesses are being subsidized by their parent organizations, notably MA, SO/CIO, and CFO. This report is being provided to the Board for discussion at the April 27, 2000 meeting.

VII. Status of Operating Efficiency Metrics

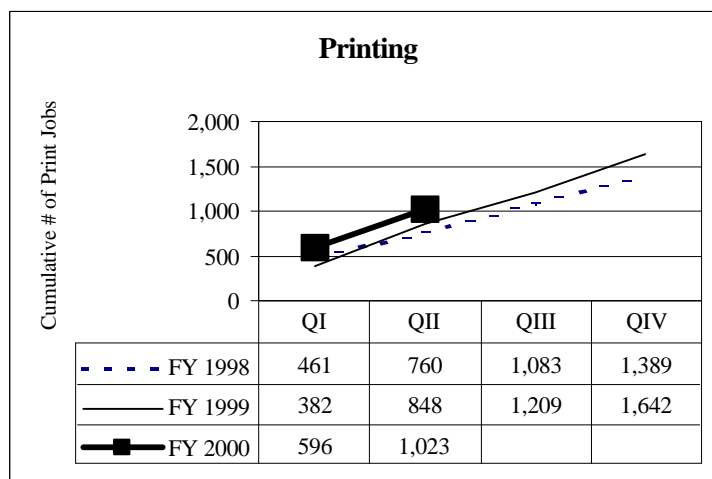
Mail: In FY 1999, the trend toward reduction in outgoing USPS mail was reversed. However, the pattern for the first two quarters of FY 2000, as shown in the following figure, is that outgoing mail volume lags behind FY 1999, though it remains ahead of FY 1998. Internal mail distribution of hard copies has continued to decrease.



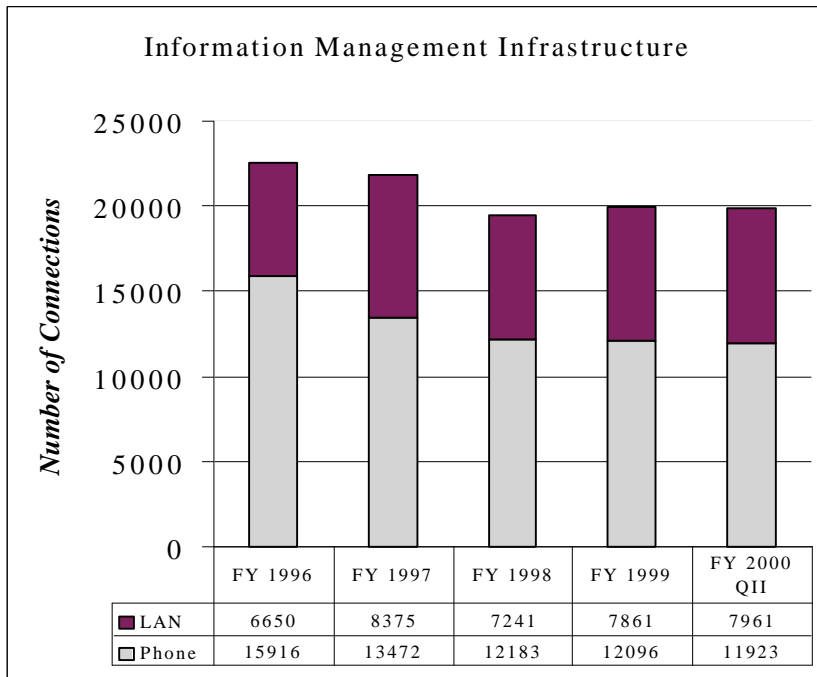
Copying: As shown in the figure below, the copying volume in FY 2000 is substantially in line with the FY 1999 pattern. The rate of reduction in copying has declined since the dramatic reductions in FY 1997 and FY 1998, and the FY 2000 patterns suggest that this pattern of reduction has now ceased.



Printing: The number of Printing jobs in the first half of FY 2000 has increased relative to the same period in each of the two prior fiscal years, suggesting an overall increase in FY 2000 for activity in the business.

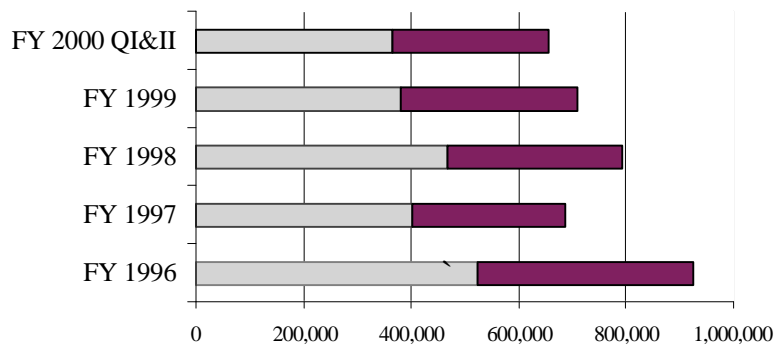


Information Management: As shown below, the aggregate number of connections to headquarters infrastructure stabilized through the first half of FY 2000 at FY 1999 levels, though there continues to be a minor decrease in the number of telephone connections that is being offset by a minor increase in the number of LAN connections.



Telephone usage, as measured by average monthly calls, has continued to decline in FY 2000 in comparison to prior years, as shown in the figure on the following page. In the second quarter, both the number and duration of FTS long-distance calls were below the same measures for comparable quarters of previous years.

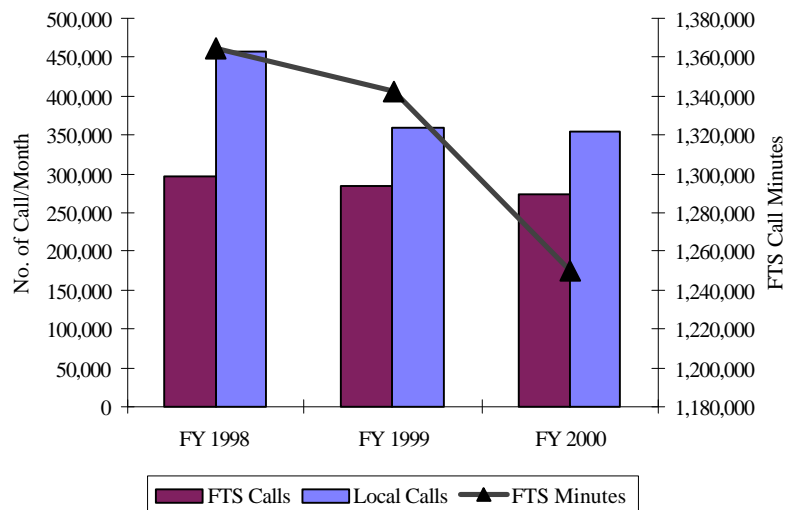
Telephone Usage



	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000 QI&II
■ FTS2000	402300	285941	326296	329302	291042
■ Local	522541	401860	467425	379893	366153

Average Monthly Calls

Telephone Usage Patterns, Second Fiscal Quarter



Contract Closeout: As shown in the figure below, the Contract Closeout business line continues to reduce the inventory of instruments subject to closeout, and they are on track to meet their commitments for the current fiscal year.

